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**ARIZONA CORPORATION COMMISSION**

October 29, 2003

Mr. Thomas L. Mumaw  
Pinnacle West Capital Corporation Law Department  
P.O. Box 53999  
Phoenix, Arizona 85072-39999

**Re: APS Rate Case; Docket No. E-01345A-03-0437**

Dear Mr. Mumaw:

I look forward to reading APS' answers to my questions listed in my September 5 letter to you. Upon further reflection, I have some additional questions about the rate impact of individual PWEC assets.

**PWEC Units in Rate Base – Breakdown by Asset**

Schedule B-2, page 1 of 3, adjustment no. 2, column D of the filing shows an \$889,237,000 pro forma adjustment to rate base to recognize PWEC assets. Your August 7 letter also mentions this figure. Footnote 2 states that the PWEC assets include (1) West Phoenix Combined Cycle Unit No. 4, (2) West Phoenix Combined Cycle No. 5, (3) Redhawk Combined Cycle No. 1, (4) Redhawk Combined Cycle No. 2, and (5) Saguaro Combustion Turbine No. 3. Please provide a breakout of the amount in column D for each line item for each of the identified PWEC assets and any other significant PWEC assets such as the Redhawk Transmission. The sum of the amounts for the individual PWEC assets on each line should reconcile to the corresponding line on Schedule B-2 of the filing.

**PWEC Units Operating Results**

Schedule C-2, page 3 of 10, adjustment no. 9, column R of the filing shows a \$12,575,000 pro forma adjustment to operating income to recognize PWEC assets. Footnote 9 states that the PWEC assets include (1) West Phoenix Combined Cycle Unit No. 4, (2) West Phoenix Combined Cycle No. 5, (3) Redhawk Combined Cycle No. 1, (4) Redhawk Combined Cycle No. 2, and (5) Saguaro Combustion Turbine No. 3. Please provide the following information regarding adjustment no. 9.

- A. Break out the amount in column R for each line item for each of the identified PWEC assets and any other significant PWEC assets such as the Redhawk Transmission. The sum of the amounts for the individual PWEC assets on each line should reconcile to the corresponding line on Schedule C-2 of the filing.

- B. Identify and explain the basis and assumptions used to derive the amounts in column R. For example, are they actual test year amounts recorded in the general ledger or pro forma amounts based on the projected average of the years 200X to 200Y and linear growth of Z percent per year?
- C. Explain line 2 "Purchased Power and Fuel Costs." Include in your answer an itemization of costs reconciled to the total and the reason this is a negative amount resulting in a \$34,970,000 **increase** in Operating Revenue Less Purchased Power & Fuel Costs.
- D. Explain the relationship of the revenue recognized in the proposed adjustment and the market revenue for Total PWEAC Assets shown on the Bhatti workpaper APB-WP23 2/16 "BENEFITS OF RATEBASING PWEAC ASSETS TO APS CUSTOMERS." Your answer should explain why the 2004 market revenue recognized on Mr. Bhatti's workpaper of \$357 million is dramatically higher than the \$56 million shown in the filing as pro forma adjustment no. 9 for Test Year 2001. What is expected to occur to produce this dramatic increase in market revenue?

#### Redhawk Transmission

Many of the calculations in the filed workpapers include Redhawk Transmission along with Redhawk 1 & 2, West Phoenix 4 & 5, and Saguaro. An example of this is Robinson workpaper DGR-WP1 2/12 which calculates rate base. Please provide the following information regarding the Redhawk Transmission:

- A. Provide a general physical and electrical description along with its general location.
- B. Does APS intend to include Redhawk Transmission in rate base? If so, explain why this is appropriate.
- C. Explain its specific purpose and benefit in the provision of utility service. Include in your answer its relationship to APS' specific generation assets and non-APS generation assets.
- D. Explain why it is included in Robinson workpapers among PWEAC generation assets such as in DGR-WP1 2/12 and other calculations.
- E. Identify, by source, the Redhawk Transmission revenue included in the filing and explain how this revenue, by source, is projected to change in the five years subsequent to the test year.

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Thank you for your attention to these complex questions. I ask APS to address these issues in its next round of testimony.

Sincerely,

A handwritten signature in cursive script that reads "Mike Gleason".

Mike Gleason  
Commissioner

Enclosures

c: Chairman Marc Spitzer  
Commissioner Bill Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin Mayes  
Parties of Record  
Docket Control